

A*udit*



R*eport*

DEFENSE COMMISSARY AGENCY FINANCIAL REPORTING OF
PROPERTY, PLANT, AND EQUIPMENT

Report Number 98-097

March 27, 1998

Office of the Inspector General
Department of Defense

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Acronyms

DeCA	Defense Commissary Agency
WCF	Working Capital Fund



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

March 27, 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE COMMISSARY AGENCY

SUBJECT: Audit Report on Defense Commissary Agency Financial Reporting of
Property, Plant, and Equipment (Report No. 98-097)

We are providing this final report for review and comment. This audit was performed to meet requirements of the "Chief Financial Officers Act of 1990," as amended by the "Federal Financial Management Act of 1994," for financial statement audits. In preparing the final report, we considered management comments from the Defense Commissary Agency on the draft of this report.

Comments from the Executive Assistant to the Director, Defense Commissary Agency, were only partially responsive. DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request the Defense Commissary Agency to provide comments on this final report by May 27, 1998.

The courtesies extended to the audit staff are appreciated. Questions on this audit should be directed to Mr. James L. Kornides, Audit Program Director, at (614) 751-1400, extension 11, e-mail JKornides@DODIG.OSD.MIL, or Mr. John K. Issel, Audit Project Manager, at (614) 751-1400, extension 12, e-mail JIssel@DODIG.OSD.MIL. See Appendix C for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, reading "David K. Steensma", is positioned above the typed name.

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 98-097
(Project No. 7FJ-2026)

March 27, 1998

Defense Commissary Agency Financial Reporting of Property, Plant, and Equipment

Executive Summary

Introduction. This audit was performed to meet requirements of the "Chief Financial Officers Act of 1990," as amended by the "Federal Financial Management Act of 1994," for financial statement audits. The Defense Commissary Agency (DeCA) was incorporated into the former Defense Business Operations Fund (now the Defense Working Capital Fund) on October 1, 1991. The goals of the Defense Working Capital Fund organizations are to standardize, consolidate, and improve systems and operations and to focus management attention on the total costs of business operations to reduce those costs. Defense Working Capital Fund organizations operate as a business, recovering the costs of their operations through the sale of goods or services to their customers. The customers are primarily Military Department operational units.

The primary mission of DeCA is to operate a worldwide system of retail grocery stores, making quality goods available at the lowest possible cost to active duty personnel, retirees, and their families. DeCA operates more than 300 commissary stores worldwide with annual sales of about \$5.2 billion, and it employs about 17,000 people. DeCA performs its mission through three types of funds; each fund produces a separate set of financial statements. The three funds are the Commissary Operations Fund, the Commissary Resale Stock Fund, and the Commissary Surcharge Collections Trust Fund. However, only two of the funds, the Commissary Operations Fund and the Commissary Resale Stock Fund, were made a part of the Defense Working Capital Funds. The Commissary Surcharge Collections Trust Fund is not part of the Defense Working Capital Funds, but it is the major source of DeCA funding for the construction of new commissary facilities and the purchase of commissary equipment, which is classified as property, plant, and equipment. For FY 1996, the DECA financial statements reported the total costs of all property, plant, and equipment as \$257.6 million.

Audit Objectives. The audit objective was to determine whether DeCA fairly presented property, plant, and equipment costs on its Working Capital Fund financial statements. Specifically, we determined whether the costs of the capital assets used to perform the DeCA mission were in accordance with DoD financial reporting policy, and whether the FY 1996 DeCA Commissary Operations Fund financial statements appropriately reflected the costs. We also reviewed the DeCA management control program as it related to the audit objectives.

Audit Results. DeCA did not properly capitalize and report in the appropriate financial statements \$609.7 million of property, plant, and equipment used in its operations. As a result, the DeCA Commissary Operations Fund financial statements

for FY 1996, which reported assets of \$1.7 million, were materially understated by at least \$609.7 million. Unless DeCA capitalizes and includes in its Commissary Operations Fund financial statements the costs of the property, plant, and equipment used to perform its operations, the financial statements for FY 1997 and beyond will also be materially understated. Additionally, the financial statements of the Commissary Operations Fund will not accurately reflect all costs involved in running its commissary stores, and the DeCA portion of the future combined Defense Working Capital Fund financial statements will be materially inaccurate. See Appendix A for details of the management control program.

The recommendations in this report, if implemented, will improve the reliability and usefulness of the financial reporting of DeCA property, plant, and equipment used in its operations. See Part I for a discussion of the audit results.

Summary of Recommendations. We recommend that the Director, Defense Commissary Agency, develop procedures and a process, in accordance with the capital asset policies in DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," for obtaining the necessary cost data to include in the Commissary Operations Fund annual financial statements all costs of capital assets, including real property facilities, software, and equipment assets, that are used in its operations. Also, we recommend that the Commissary Operations Fund financial statements be appropriately footnoted to explain the underreporting of property, plant, and equipment assets and associated depreciation costs until the required cost data are obtained and incorporated into the financial statements.

Management Comments. The Executive Assistant to the Director, Defense Commissary Agency, concurred and stated that in conjunction with the Office of the Under Secretary of Defense (Comptroller), DeCA was developing a methodology for valuing the real property facilities used by the DeCA in its operations. The DeCA plans to report that value on its FY 1998 financial statements. Also, DeCA footnoted its FY 1997 financial statements to reflect the value of all commissaries constructed since the inception of DeCA. Costs for software and automatic data processing assets associated with FY 1997 were also footnoted. The complete text of management comments is in Part III.

Audit Response. DeCA comments were partially responsive. The actions taken by DECA to reflect the value of commissary facility, software, and automated data processing costs in the footnotes to the FY 1997 financial statements, and include in its FY 1998 financial statements the values of all real property facilities used by DECA is commendable. However, DECA comments did not address the reporting of capital equipment assets used in the operations of DeCA commissaries worldwide, and that it currently reported on the Commissary Surcharge Collections Trust Fund financial statement. The current accounting treatment of equipment assets understates the expenses of DeCA operations. We request that the Director, Defense Commissary Agency, provide additional comments on this report by May 27, 1998.

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Part I - Audit Results

Audit Background

This audit was performed to meet requirements of the "Chief Financial Officers Act of 1990," as amended by the "Federal Financial Management Act of 1994," for financial statement audits.

Defense Commissary Agency. The Defense Commissary Agency (DeCA) was established and incorporated into the former Defense Business Operations Fund (now the Defense Working Capital Funds [WCFs]) on October 1, 1991. The goals of the Defense WCF organizations are to standardize, consolidate, and improve systems and operations and to focus management attention on the total costs of business operations to reduce those costs. Additionally, the Defense WCF organizations are expected to operate as private businesses, recovering the costs of their operations through the sale of goods or services to their customers, primarily Military Department operational units.

The primary mission of DeCA is to operate a worldwide system of retail grocery stores, making quality goods available at the lowest possible cost to active duty personnel, retirees, and their families. DeCA operates more than 300 commissary stores worldwide with annual sales of about \$5.2 billion, and it employs approximately 17,000 people. DeCA performs its mission through three types of funds; each fund produces a separate set of financial statements. The three DeCA funds are described below.

- o The Commissary Resale Stock Fund (the Resale Stock Fund) was established to pay for DeCA inventory for resale items that are stocked and expected to be sold to commissary customers. The Resale Stock Fund was made a part of the Defense WCFs. Revenues from sales of stock are used to replace the inventory of items sold. The Resale Stock Fund is expected to be self-sustaining and receives no appropriated fund support.

- o The Commissary Operations Fund (the Operations Fund) was established to pay for the costs of operating the DeCA commissary stores, DeCA Headquarters and regional offices, and the DeCA operations support center. The Operations Fund was also made a part of the Defense WCF. However, the Operations Fund does not receive revenue through sales of goods or services to customers, as do most of the Defense WCF organizations. Operating expenses are paid through annual appropriations received from Congress.

- o The Commissary Surcharge Collections Trust Fund (the Surcharge Trust Fund) was established to pay for building new commissary facilities, but it can also be used for miscellaneous expenses such as the purchase of equipment and utilities. The Surcharge Trust Fund receives the majority of its revenue through a 5-percent surcharge added to grocery sales at the checkout counter. Miscellaneous revenues are also received from vendor discounts and rebates and by selling data on commissary store sales. The Surcharge Trust Fund is not part of the Defense WCFs.

Assets Reported on DeCA FY 1996 Financial Statements. The DeCA FY 1996 financial statements reported the total costs of all property, plant, and equipment as \$257.6 million. The following schedule shows the costs of property, plant, and equipment shown on the FY 1996 financial statements of each DeCA fund.

Costs of Property, Plant, and Equipment on DeCA FY 1996 Financial Statements
(dollars in millions)

<u>Financial Statement</u>	<u>Real Property Facilities</u>	<u>Equipment</u>	<u>Computer Software</u>	<u>Construction-in-Progress</u>
Resale Stock Fund	\$0	\$ 0	0	\$ 0
Commissary Operations	0.22	1.5	0	0
Surcharge Trust Fund	<u>0</u>	<u>78.4</u>	<u>0</u>	<u>177.5</u>
Total	\$0.22	\$79.9	0	\$177.5

Audit Objectives

The audit objective was to determine whether DeCA fairly presented property, plant, and equipment costs on its Defense WCF financial statements. Specifically, we determined whether the costs of the capital assets used to perform the DeCA mission were in accordance with DoD financial reporting policy, and whether the FY 1996 DeCA Operations Fund financial statements appropriately showed the costs. We also reviewed the DeCA management control program as it related to the audit objectives. See Appendix A for a discussion of the audit process and our assessment of the management control program, and see Appendix B for a summary of prior audit coverage.

Property, Plant, and Equipment Used in Operations

DeCA did not properly capitalize and report in the appropriate financial statements \$609.7 million of property, plant, and equipment used in its operations. This condition occurred because DeCA did not fully implement the provisions of DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 11B, "Reimbursable Operations, Policy and Procedures - Defense Business Operations Fund," December 1994, which states that an agency must capitalize and record in its financial statements all capital assets (property, plant, and equipment) used to provide goods or services. As a result, the DeCA Commissary Operations Fund (the Operations Fund) financial statements for FY 1996, which reported assets of \$1.7 million, were materially understated by at least \$609.7 million. Unless DeCA capitalizes and includes in the Operations Fund annual financial statements the costs of its property, plant, and equipment, the financial statements for FY 1997 and beyond will also be materially understated. Moreover, the financial statements of the Operations Fund will not accurately reflect all costs involved in running the commissary stores, and the DeCA portion of the future combined Defense WCF financial statements will be materially inaccurate.

Reporting Criteria

DoD Regulation 7000.14-R, volume 11B, chapter 58, "Capital Assets," gives DoD policy on the accounting and financial statement reporting of property, plant, and equipment by the Defense WCF organizations. Capital assets include, but are not limited to, physical plant and property (including improvements), equipment, and software. For FY 1996, DoD policy requires that the Defense WCF organizations, such as DeCA, capitalize and depreciate all assets valued at \$100,000 or greater having a useful life of 2 or more years. DoD Regulation 7000.14R also requires organizations to report capital assets that they use to accomplish their mission or function on their financial statements if the assets meet the following three criteria:

1. The asset must embody a probable future benefit that will contribute to the entity's operations. The concept of benefit has traditionally been referred to as "service capacity" which is the ability of an item to directly assist an entity in achieving its mission. Real property assets, such as buildings, financed by a military construction appropriation provide a service capacity to the WCF organizations in that they house the WCF operations thus allowing the WCF organization to achieve its mission. The exchangeability part of the

Property, Plant, and Equipment Used in Operations

benefit criteria (that is, the ability to sell, trade, or donate property) need not be present for an item to qualify as an asset in the federal sector if consumption of the item provides benefit to the entity.

2. The entity that reports the asset must be able to obtain the benefit and control access to the benefit inherent in the asset. In instances in which a Defense WCF organization maintains possession of the property through agreements which provide possession for as long as needed, without a termination date and without reimbursement, such arrangements are generally considered as providing sufficient influence over the use of the property to satisfy the control criteria.

3. The transaction or event giving the entity a right to and control over the benefit must have already occurred. The third criteria is an agreement (expressed or implied) that allows a WCF organization to occupy and/or use the property without reimbursement for as long as needed.

Reporting of DeCA Capital Assets

DeCA did not properly capitalize and report in the appropriate financial statements the costs of property, plant, and equipment used in its operations. At least \$609.7 million of real property, equipment, and software assets used to accomplish the DeCA mission was not shown on its Defense WCF financial statements, specifically on the Operations Fund financial statements. Details follow.

Real Property Facilities. DeCA occupies several headquarters and regional office facilities and operates more than 300 commissary stores worldwide. The costs of those facilities were not included on the FY 1996 DeCA financial statements of the Operations Fund, the Resale Stock Fund, and the Surcharge Trust Fund. For FY 1996, the Surcharge Trust Fund financial statements showed \$177.5 million in new facilities being built as construction-in-progress. However, contrary to DoD financial reporting policy, DeCA discontinued the financial accounting and reporting of its real property facilities when construction was completed. Records were not available to determine the costs and associated unfunded depreciation expenses that should have been shown in accounting records for all real property facilities used by DeCA to accomplish its mission. DeCA was able to provide us with only records showing that 72 new commissary facilities, costing \$485.3 million, had been built and placed in operation since FY 1993.

Capital Equipment Assets. DeCA reported a total of \$79.9 million of capital equipment assets on all three of its financial statements, but it reported only \$1.5 million of those equipment assets on its Operations Fund FY 1996 financial statements. The remaining \$78.4 million of equipment assets were shown on the Surcharge Trust Fund financial statements. The Surcharge Trust Fund financial statements were reported separately and were not included in the

Property, Plant, and Equipment Used in Operations

DeCA portion of the combined Defense WCF financial statements (the Operations Fund and Resale Stock Fund financial statements). Consequently, although the \$78.4 million of capital equipment assets were used in the operation of DeCA commissary stores worldwide, DeCA did not show those assets in its costs of operations.

Software Assets. DeCA also did not include the costs of its software assets in its financial statements. The Operations Fund, the Resale Stock Fund, and the Surcharge Trust Fund financial statements for FY 1996 did not include any of the costs of DeCA software assets or associated software depreciation costs. DeCA could not provide data on the original development costs of its 20 software systems in operation, but it provided data showing that at least \$46 million was spent on software system upgrades from FYs 1991 through 1996. In accordance with DoD capital asset policy, the \$46 million spent on software system upgrades should have been capitalized, the associated depreciation costs recorded in accounting records, and the capitalized assets and associated depreciation costs shown on annual financial statements.

Compliance With Capital Asset Reporting Policy

As discussed in the preceding paragraphs, DeCA did not properly capitalize and report in the appropriate financial statements the costs of its capital assets. This condition occurred because DeCA did not fully implement the provisions of DoD Regulation 7000.14-R, volume 11B, which states that an organization must capitalize and record in its financial statements all capital assets (property, plant, and equipment) used in providing goods or services.

When we asked DeCA managers why DeCA was not in compliance with the provisions of DoD Regulation 7000.14-R for capital asset accounting and financial statement reporting, they told us that they were not fully aware of those provisions. For example, DeCA did not include real property facilities in the DeCA financial statements because DeCA Directive 70-7, "Financial Management for Headquarters and Regions," August 31, 1994, requires that when construction is complete, the ownership (title) of commissary facilities must be transferred to a Military Department. Because DeCA did not retain title to its real property facilities, such as commissary stores, DeCA management believed that the assets should not have been included on DeCA financial statements, but should be reported on the financial statements of the Military Departments. Financial managers of the Military Departments told us that the financial reporting of commissary facilities was inconsistent, but that steps were being taken to exclude commissary facilities from financial statements in the future.

DeCA managers also stated that the costs of software upgrades were expensed, instead of capitalized with depreciation costs recorded, because they did not know that capitalization was required. For the capital equipment assets that were not shown on the Operations Fund financial statements, DeCA

Property, Plant, and Equipment Used in Operations

management stated that those assets were purchased with funds from the Surcharge Trust Fund and were appropriately included on the Surcharge Trust Fund financial statements.

Reporting the equipment assets on only one of the three DeCA financial statements was preferable to not reporting the assets. However, the capital equipment assets should have been reported on the Operations Fund financial statements because those assets are essential to commissary operations. Also, the financial statements of the Operations Fund, but not the Surcharge Trust Fund, are part of the Defense WCF combined financial statements. Furthermore, if the Operations Fund financial statements showed all costs of operations, including the depreciation costs of capital assets, Congress would have more reliable information, and funding for DeCA operations could be affected.

Effect on Commissary Operations Financial Statements

DeCA did not capitalize and include on its Operations Fund FY 1996 financial statements the \$485.3 million of new commissary facilities, \$46 million in software system upgrades, \$78.4 million in capital equipment assets, and the depreciation costs associated with those capital assets. As a result, the Operations Fund financial statements were materially inaccurate, and all operating costs were not appropriately reflected on the DeCA portion of the combined Defense Business Operations Fund financial statements for FY 1996. Unless DeCA includes in its Operations Fund financial statements the costs of the property, plant, and equipment used to accomplish its mission, its Defense WCF financial statements for FY 1997 and beyond will also be materially understated.

DeCA is unique in that only two of its funds, the Operations Fund and Resale Stock Fund, are part of the Defense WCFs, and that the primary fund used to make its capital asset purchases, the Surcharge Trust Fund, is not part of the Defense WCFs. However, DeCA must adhere to one of the primary purposes of Defense WCF organizations, which is to capture all costs of providing goods and services by support activities so that those costs can be better controlled. DeCA should include in its Operations Fund financial statements all costs (acquisition or capitalization costs and associated depreciation costs) of the property, plant, and equipment used to accomplish its mission as a Defense WCF organization.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Commissary Agency:

1. Develop procedures and a process, in accordance with the capital asset policies in DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," December 1994, to obtain the necessary cost data to include in the Commissary Operations Fund annual financial statements all costs of capital assets, including real property facilities, software, and equipment assets, that are used in performing operations.

2. Require that the Commissary Operations Fund financial statements be footnoted to explain the underreporting of property, plant, and equipment assets and associated depreciation costs until the required cost data are obtained and incorporated into the financial statements.

Management Comments. The Executive Assistant to the Director, Defense Commissary Agency, concurred and stated that in conjunction with the Office of the Under Secretary of Defense (Comptroller), DeCA was developing a methodology for valuing the real property facilities that DeCA uses in its operations. The DeCA plans to report that value on its FY 1998 financial statements. Also, DeCA footnoted its FY 1997 financial statements to reflect the value of all commissaries constructed since the inception of DeCA. Costs for software and automatic data processing assets associated with FY 1997 were also footnoted. The complete text of DeCA comments is in Part III.

Audit Response. DeCA comments were partially responsive. The actions taken by DECA to reflect the value of commissary facility, software, and automated data processing costs in the footnotes to the FY 1997 financial statements, and include in its FY 1998 financial statements the values of all real property facilities used by DECA is commendable. However, DECA comments did not address the reporting of capital equipment assets used in the operations of DeCA commissaries worldwide, and that it currently reported on the Commissary Surcharge Collections Trust Fund financial statement. The current accounting treatment of equipment assets understates the expenses of DeCA operations. We request that the Director, Defense Commissary Agency, provide additional comments on this report.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

The scope of this audit was limited to the DeCA property, plant, and equipment (capital asset) accounts. Specifically, we reviewed the validity of the combined total of \$257.6 million reported by DeCA for property, plant, and equipment on the FY 1996 financial statements of the Commissary Operations Fund, the Commissary Resale Stock Fund, and the Commissary Surcharge Collections Trust Fund. We obtained the accounting records used to report the values of property, plant, and equipment for each DeCA fund. At our request, DeCA managers provided cost data on commissary facilities constructed since FY 1993 and expenditures for software system upgrades since FY 1991. We also reviewed the Under Secretary of Defense (Comptroller) financial policies, issued from September 1991 to the present, for the capitalization, depreciation, and reporting of property, plant, and equipment by Defense WCF organizations. We discussed the propriety of DeCA reporting capital assets on its Operations Fund (Defense WCF) financial statements instead of its Surcharge Trust Fund (non-Defense WCF) financial statements with senior managers of DeCA and the Under Secretary of Defense (Comptroller).

Use of Computer-Processed Data. We reviewed computer-processed data from the Defense Property Accountability System that DeCA uses to maintain records for property accountability, depreciation, and scheduling preventive maintenance. We did not test the Defense Property Accountability System to determine the reliability of the computer-processed data because our audit determined that material amounts of property, plant, and equipment were not included in the data.

Audit Type, Dates, and Standards. This financial-related audit was conducted from August through September 1997 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

Contacts During the Audit. We visited or contacted individuals or organizations within the DoD. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Management Control Program," and DoD Instruction 5010.40, "Management Control Program Procedures," August 26, 1996,

require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of DeCA management controls over the accounting and reporting of property, plant, and equipment. Specifically, we reviewed management controls established to ensure that reliable and complete data on property, plant, and equipment were entered into financial systems and that documentation was retained to support the amounts reported.

Adequacy of Management Controls. We identified material management control weaknesses for DeCA as defined by DoD Directive 5010.38. DeCA management controls for accounting and reporting of property, plant, and equipment were not adequate to ensure that real property facilities, equipment, and computer software used in operations were included in the Commissary Operations Fund financial statements. Recommendations 1. and 2., if implemented, will improve the reporting of property, plant, and equipment by DeCA.

Adequacy of Management's Self-Evaluation. DeCA officials did not identify property, plant, and equipment as an assessable unit, and therefore did not identify or report the material management control weaknesses found during the audit.

Appendix B. Summary of Prior Coverage

Inspector General, DoD, Report No. 96-193. The report, "Funding for Operational Support of the Defense Commissary Agency Construction Program," was issued on July 3, 1996. The report states that DeCA used appropriated funds from the Defense Business Operations Fund (the Operations Fund) instead of the Surcharge Trust Fund to pay salaries and other support costs of the construction program. Using the Surcharge Trust Fund to pay salaries and other support costs would help DeCA reduce its need for appropriated funds. DeCA nonconcurred with the recommendation and stated that the use of the Surcharge Trust Fund to pay operational support costs of the construction program was inappropriate. DeCA planned to resolve this issue by converting to a single fund. However, during the Program Budget Decision process in May 1997, Congress denied the DeCA request to convert to a single fund. Consequently, DeCA is revising its planned action.

Inspector General, DoD, Report No. 96-160. The report, "Defense Business Operations Fund Equity Transfer -- Defense Commissary Agency," was issued on June 13, 1996. The report states that DeCA erroneously reported a \$251.6 million transfer of equity from the Defense Logistics Agency segment of DBOF as revenue in its FY 1995 financial statements. The transfer was made as a result of guidance provided by the Under Secretary of Defense (Comptroller). We recommended that the Under Secretary of Defense (Comptroller) direct the correction of accounting records and the FY 1995 DBOF consolidated financial statements by reducing revenues by \$251.6 million and increasing equity by the same amount. The Under Secretary of Defense (Comptroller) agreed and stated that corrective action would be taken.

Inspector General, DoD, Report No. 95-218. The report, "Statement of Financial Position for the Commissary Surcharge Collections Fund, as of September 30, 1994," was issued on June 5, 1995. The report states that the Inspector General, DoD, could not render an opinion on the Statement of Financial Position for the Surcharge Trust Fund because effective internal controls for accounts payable, cash, capital equipment, and construction-in-progress were not in place to provide reasonable assurance that material misstatements would be prevented or detected in a timely manner. We recommended that DeCA conform with DoD procedures for capitalizing all construction-in-progress costs. DeCA concurred and initiated action to capitalize construction-in-progress costs.

Inspector General, DoD, Report No. 94-157. The report, "Defense Commissary Agency Financial Improvement Program," was issued on June 30, 1994. The report states that DeCA made significant improvements in six functional areas of the Financial Improvement Program, including asset and liability accounts of the Surcharge Trust Fund. DeCA had established procedures for recording expenses and accounts payable when incurred, and it had begun accounting for capital equipment and construction-in-progress. The audit showed no material deficiencies in implementing the financial management improvement program at DeCA.

Appendix C. Report Distribution

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Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Public Affairs)
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House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Defense Commissary Agency Comments



REPLY TO
ATTENTION OF

DEFENSE COMMISSARY AGENCY
HEADQUARTERS
1900 E AVENUE
FORT LEE, VIRGINIA 22061-1000

IR

FEB 23 1998

MEMORANDUM FOR INSPECTOR GENERAL, FINANCE AND ACCOUNTING
DIRECTORATE, 400 ARMY NAVY DRIVE, ARLINGTON,
VA 22202-2884

SUBJECT: Audit Report on Defense Commissary Agency Financial
Reporting of Property, Plant, and Equipment (Project
No. 7FJ-2026)

Reference: DoDIG Memorandum, December 22, 1997, SAB

Attached is the DeCA reply to the recommendations provided
in subject report. If you have any questions, please contact Mr.
Ben Mikell at (804) 734-8103.

Donna J. Willis

DONNA J. WILLIS
Executive Assistant for Support

Attachment:
As Stated

DEFENSE COMMISSARY AGENCY REPLY

SUBJECT: Audit Report on Defense Commissary Agency Financial
Reporting of Property, Plant, and Equipment (Project No.
7FJ-2026)

Recommendation. We recommend that the Director, Defense
Commissary Agency:

- a. Develop procedures in accordance with the capital asset policies in DoD 7000.14-R, the "DoD Financial Management Regulation," to obtain the necessary cost data to include in the Commissary Operations Fund annual financial statements all costs of capital assets, including real property facilities, software and equipment assets, which are used in performing operations.
- b. Require that the Commissary Operations Fund financial statements be footnoted to explain the under reporting of property, plant, and equipment assets and associated depreciation costs until the required cost data are obtained and incorporated into the financial statements.

DeCA Reply. DeCA concurs with this recommendation.

- a. The OUSD, Comptroller, Accounting Policy staff is developing a methodology for valuing real property facilities. DeCA will be coordinating on that methodology. Efforts will begin to identify all real property facilities used by DeCA in order to reflect the value on the FY 98 financial statements. Target date for completion of this effort is October 1998.
- b. Footnotes to the FY 97 CFO Statements were annotated to reflect the value of all commissaries completed and transferred to the installations by DeCA since inception of DeCA. Costs for software and ADF costs associated with FY 97 were also annotated.

Audit Team Members

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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